

Georgia Tech Research Corporation
Financial Statements
With
Independent Auditors' Report
For the Year Ended June 30, 2010

Georgia Tech Research Corporation

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Independent Auditors' Report

To the Board of Trustees of
Georgia Tech Research Corporation:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Georgia Tech Research Corporation (GTRC), a component unit of the State of Georgia, as of and for the year ended June 30, 2010, which collectively comprise GTRC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of GTRC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of GTRC as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2010 on our consideration of GTRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cherry, Bekaert & Holland, LLP

Atlanta, Georgia
September 17, 2010

Georgia Tech Research Corporation

Management's Discussion and Analysis June 30, 2010

Introduction

The Georgia Tech Research Corporation (GTRC) was chartered on April 13, 1937, as the Industrial Development Council, a not-for-profit corporation affiliated with the Georgia Institute of Technology (GIT), a unit of the University System of the State of Georgia. GTRC was established for the purpose of engaging in sponsored research for scientific, literary and educational purposes, or related objectives. On February 9, 1946, the corporate charter was amended and included a provision to change the name from the Industrial Development Council to the Georgia Tech Research Institute (GTRI). On April 6, 1984, GTRI amended its corporate charter to change the name to the Georgia Tech Research Corporation.

GTRC serves as the contracting entity for the GIT which performs research under the Office of Management and Budget (OMB) Circulars A-21 and A-110.

Effective July 1, 1998, the Georgia Tech Applied Research Corporation (GTARC) was established as a component of GTRC. GTARC was organized as the contracting entity for units of the GIT performing research under the cost principles of OMB Circular A-122 and Federal Acquisition Regulations (FAR) 31.2.

GTRC, and its component unit, GTARC (hereinafter collectively referred to as GTRC), enter into contracts and grant agreements with various organizations, including Federal agencies, and subcontracts with GIT to provide services in connection with these agreements. As part of the relationship, payments occur between GIT and GTRC for certain sponsored project expenditures and research administration.

In a Memorandum of Understanding (MOU) dated April 1, 1953, the Board of Regents of the University System of Georgia authorized GTRC (then GTRI) to serve as the official grantee for all contracts and grants for the conduct of sponsored research at the GIT. The MOU also assigned all intellectual property developed through the performance of contracts subcontracted to the GIT to GTRC. GTRC is the administrative organization for discoveries, innovations, inventions, patents and copyrights and is responsible for intellectual property management including patenting and licensing. The ongoing objective of GTRC is to provide services to the GIT and, through those services, to enhance GIT's programs and goals as a research institution.

Description of the Financial Statements

The statements of net assets, revenues, expenses and changes in net assets, and cash flows are designed to provide information which will assist in understanding the financial condition and performance of GTRC. The net assets are an indicator of GTRC's financial health. Over time, increases or decreases in net assets are another measure of the changes in GTRC's financial condition when considered with other non-financial facts.

The statement of net assets presents the assets, liabilities and net assets of GTRC.

Georgia Tech Research Corporation

Management's Discussion and Analysis – Continued June 30, 2010

The statement of revenues, expenses and changes in net assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies investment earnings and changes in the fair value of investments as nonoperating revenues. As a result, the financial statements may show operating losses that are then offset by nonoperating revenues from a total financial perspective.

The statement of cash flows presents information in the form of cash inflows and outflows summarized by operating, capital and related financing activities, and investing activities.

Financial Highlights

The condensed statement of net assets at June 30, 2010 and 2009 is shown below:

	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>2010</u> Total Business-type Activities	<u>2009</u> Total Business-type Activities
Assets				
Current assets	\$ 85,432,666	\$ 58,561,811	\$ 143,994,477	\$ 139,780,280
Noncurrent assets	<u>1,268,635</u>	<u>-</u>	<u>1,268,635</u>	<u>1,565,030</u>
Total assets	<u>\$ 86,701,301</u>	<u>\$ 58,561,811</u>	<u>\$ 145,263,112</u>	<u>\$ 141,345,310</u>
Liabilities and Net Assets				
Current liabilities	<u>\$ 70,496,233</u>	<u>\$ 37,587,661</u>	<u>\$ 108,083,894</u>	<u>\$ 104,923,917</u>
Net assets:				
Invested in capital assets	1,189,387	-	1,189,387	1,441,239
Unrestricted	<u>15,015,681</u>	<u>20,974,150</u>	<u>35,989,831</u>	<u>34,980,154</u>
Total net assets	<u>16,205,068</u>	<u>20,974,150</u>	<u>37,179,218</u>	<u>36,421,393</u>
Total liabilities and net assets	<u>\$ 86,701,301</u>	<u>\$ 58,561,811</u>	<u>\$ 145,263,112</u>	<u>\$ 141,345,310</u>

Current assets increased by \$4,214,197 or 3% from fiscal 2009, due primarily to an increase in research receivables. Research revenue increased, which in turn increased current receivables.

Noncurrent assets consist of investments and capital assets net of the associated accumulated depreciation. Noncurrent assets decreased by \$296,395 or 19%, primarily due to depreciation on capital assets and the net depreciation in the fair value of investments from 2009 to 2010.

Georgia Tech Research Corporation

Management's Discussion and Analysis – Continued June 30, 2010

Current liabilities increased \$3,106,977 or 3%, primarily due to an increase in accounts payable for direct research costs incurred and advances payments on research contracts.

Net assets represent the difference between GTRC's assets and liabilities. There was an increase in net assets of \$757,823 or 2%, which can primarily be attributed to increases in operating revenue which was partially offset by increases in operating expenses.

The condensed statement of revenues, expenses and changes in net assets for the years ended June 30, 2010 and 2009 is shown below:

			<u>2010</u>	<u>2009</u>
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-type Activities	Total Business-type Activities
Operating revenues	\$ 276,976,806	\$ 196,251,214	\$ 473,228,020	\$ 419,752,951
Operating expenses	<u>(276,139,361)</u>	<u>(196,364,175)</u>	<u>(472,503,536)</u>	<u>(421,039,712)</u>
Loss (income) from operations	837,445	(112,961)	724,484	(1,286,761)
Nonoperating revenues, net	<u>20,341</u>	<u>12,998</u>	<u>33,339</u>	<u>130,797</u>
(Increase) decrease in net assets	<u>857,786</u>	<u>(99,963)</u>	<u>757,823</u>	<u>(1,155,964)</u>
Net assets, beginning of year	<u>15,347,282</u>	<u>21,074,113</u>	<u>36,421,395</u>	<u>37,577,357</u>
Net assets, end of year	<u>\$ 16,205,068</u>	<u>\$ 20,974,150</u>	<u>\$ 37,179,218</u>	<u>\$ 36,421,393</u>

Operating revenues consist primarily of research contracts, licensing fees and royalty revenues. During fiscal 2010, operating revenues increased by \$53,475,069 or 13%, primarily due to increased research project revenues.

Operating expenses increased by \$51,463,824 or 12%, primarily due to increased direct research costs resulting from increased research contract activity.

Nonoperating revenues decreased by \$97,458 or 75%, primarily due to a decrease in interest income.

Georgia Tech Research Corporation

Management's Discussion and Analysis – Continued June 30, 2010

Economic Outlook

The Georgia Institute of Technology received a record \$557.8 million in sponsored research awards in fiscal year 2010 continuing a trend of accelerated growth in external research support. A relatively small portion of the growth in awards is accounted for by funding through the America Recovery and Reinvestment Act (ARRA). The conclusion of the stimulus program in 2011 will not unduly influence research funding since a large component of Georgia Tech's ARRA funding involved construction of a new facility. Interest earned on deposits remains low due to the prevailing low interest rates on secure deposits. Georgia Tech continues to be proactive in working with a diverse set of public and private sponsors to support growth across a spectrum of topics. Certain areas of research continue to promise opportunities for funding for innovative research. These include energy/alternative energy, medical device innovation, nanotechnology, high performance computing and computational sciences, and medical records informatics.

Requests for Information

This financial report is designed to provide a general overview of Georgia Tech Research Corporation's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information, including the separately issued financial statements for Georgia Tech Applied Research Corporation should be addressed to the Office of the Director of Accounting, Georgia Tech Research Corporation, 505 Tenth Street, Atlanta, Georgia, 30332-0415.

Georgia Tech Research Corporation

Statement of Net Assets

June 30, 2010

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Assets			
Current assets:			
Cash	\$ 46,359,989	\$ 20,461,505	\$ 66,821,494
Accounts receivable:			
Research contracts - Billed	16,228,134	22,482,028	38,710,162
Research contracts - Unbilled	23,441,140	18,303,996	41,745,136
Other receivables	715,340	-	715,340
Less - allowance for doubtful accounts	(2,212,880)	(2,086,255)	(4,299,135)
Accounts receivable, net	38,171,734	38,699,769	76,871,503
Due from (to) component unit	599,463	(599,463)	-
Prepaid expenses	301,480		301,480
Total current assets	<u>85,432,666</u>	<u>58,561,811</u>	<u>143,994,477</u>
Noncurrent assets:			
Investments	79,248	-	79,248
Capital assets, net	1,189,387	-	1,189,387
Total noncurrent assets	<u>1,268,635</u>	<u>-</u>	<u>1,268,635</u>
Total assets	<u>\$ 86,701,301</u>	<u>\$ 58,561,811</u>	<u>\$ 145,263,112</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable:			
Georgia Institute of Technology	\$ 29,203,542	\$ 14,506,435	\$ 43,709,977
Other	1,450,274	9,066,623	10,516,897
Accounts payable	<u>30,653,816</u>	<u>23,573,058</u>	<u>54,226,874</u>
Funds held on behalf of Georgia Institute of Technology	-	10,613,221	10,613,221
Deferred research contract revenue	39,842,417	3,401,382	43,243,799
Total current liabilities	<u>70,496,233</u>	<u>37,587,661</u>	<u>108,083,894</u>
Net assets:			
Invested in capital assets	1,189,387	-	1,189,387
Unrestricted	15,015,681	20,974,150	35,989,831
Total net assets	<u>16,205,068</u>	<u>20,974,150</u>	<u>37,179,218</u>
Total liabilities and net assets	<u>\$ 86,701,301</u>	<u>\$ 58,561,811</u>	<u>\$ 145,263,112</u>

See accompanying notes to financial statements.

Georgia Tech Research Corporation

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2010

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Operating revenues:			
Research contracts	\$ 269,472,018	\$ 196,250,192	\$ 465,722,210
Licenses and royalties	2,357,801	-	2,357,801
Lease income	5,144,433	-	5,144,433
Other	2,554	1,022	3,576
Total operating revenues	276,976,806	196,251,214	473,228,020
Operating expenses:			
Research contract costs	255,172,959	194,306,020	449,478,979
Depreciation	372,662	-	372,662
Administrative and general expenses	5,253,678	1,746,340	7,000,018
Licenses and royalties expenses	3,780,287	-	3,780,287
Lease expenses	5,144,433	-	5,144,433
Payments to or on behalf of Georgia Institute of Technology	6,415,342	311,815	6,727,157
Total operating expenses	276,139,361	196,364,175	472,503,536
Income (loss) from operations	837,445	(112,961)	724,484
Nonoperating revenues (expenses):			
Interest income	64,888	12,998	77,886
Unrealized losses on investments	(44,547)	-	(44,547)
Total nonoperating revenues (expenses), net	20,341	12,998	33,339
Increase (Decrease) in net assets	857,786	(99,963)	757,823
Net assets, beginning of year	15,347,282	21,074,113	36,421,395
Net assets, end of year	\$ 16,205,068	\$ 20,974,150	\$ 37,179,218

See accompanying notes to financial statements.

Georgia Tech Research Corporation

Statement of Cash Flows

As of and for the Year Ended June 30, 2010

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Cash flows from operating activities:			
Receipts from grantors	\$ 271,853,354	\$ 196,546,955	\$ 468,400,309
Receipts of license fees and royalties	2,357,801	-	2,357,801
Receipts from leases	5,144,433	-	5,144,433
Miscellaneous receipts	-	1,022	1,022
Payments for licenses and royalties	(3,780,287)	-	(3,780,287)
Payments for leases	(5,144,433)	-	(5,144,433)
Payments to or on behalf of Georgia Institute of Technology	(6,415,342)	(311,815)	(6,727,157)
Payments for research contract costs	(259,369,412)	(194,649,980)	(454,019,392)
Net cash provided by operating activities	<u>4,646,114</u>	<u>1,586,182</u>	<u>6,232,296</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(120,810)	-	(120,810)
Net cash used in capital and related financing activities	<u>(120,810)</u>	<u>-</u>	<u>(120,810)</u>
Cash flows from investing activities			
Interest income	64,888	12,998	77,886
Net cash provided by investing activities	<u>64,888</u>	<u>12,998</u>	<u>77,886</u>
Net increase in cash	4,590,192	1,599,180	6,189,372
Cash and cash equivalents, beginning of year	41,769,797	18,862,325	60,632,122
Cash, end of year	<u>\$ 46,359,989</u>	<u>\$ 20,461,505</u>	<u>\$ 66,821,494</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 837,445	\$ (112,961)	\$ 724,484
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	372,662	-	372,662
Provision for bad debt	1,500,000	-	1,500,000
Changes in assets and liabilities:			
Accounts receivable	430,903	296,763	727,666
Due to/from component unit	(162,356)	162,356	-
Prepaid expenses	(252,491)	-	(252,491)
Accounts payable to Georgia Institute of Technology	(107,276)	(228,258)	(335,534)
Accounts payable other	227,253	8,277,857	8,505,110
Funds held on behalf of Georgia Institute of Technology	-	(7,216,662)	(7,216,662)
Deferred research contract revenue	1,799,974	407,087	2,207,061
Net cash provided by operating activities	<u>\$ 4,646,114</u>	<u>\$ 1,586,182</u>	<u>\$ 6,232,296</u>
Schedule of noncash investing activity:			
Decrease in the fair value of investments	<u>\$ 44,547</u>	<u>-</u>	<u>\$ 44,547</u>

See accompanying notes to financial statements.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2010

NOTE 1 – DESCRIPTION OF ORGANIZATION

The Georgia Tech Research Corporation (GTRC) was chartered on April 13, 1937, as the Industrial Development Council, a not-for-profit corporation affiliated with the Georgia Institute of Technology (GIT), a unit of the University System of the State of Georgia. GTRC was established for the purpose of engaging in sponsored research for scientific, literary and educational purposes, or related objectives. On February 9, 1946, the corporate charter was amended and included a provision to change the name from the Industrial Development Council to the Georgia Tech Research Institute (GTRI). On April 6, 1984, GTRI amended its corporate charter to change the name to the Georgia Tech Research Corporation.

GTRC serves as the contracting entity for the GIT which performs research under the Office of Management and Budget (OMB) Circulars A-21 and A-110.

Effective July 1, 1998, the Georgia Tech Applied Research Corporation (GTARC) was established as a component of GTRC. GTARC was organized as the contracting entity for units of the GIT performing research under the cost principles of OMB Circular A-122 and Federal Acquisition Regulations (FAR) 31.2.

GTRC, and its component unit, GTARC (hereinafter collectively referred to as GTRC), enter into contracts and grant agreements with various organizations, including Federal agencies, and subcontracts with GIT to provide services in connection with these agreements. As part of the relationship, payments occur between GIT and GTRC for certain sponsored project expenditures and research administration.

In accordance with accounting principles generally accepted in the United States of America (“GAAP”) applicable to governments the financial statements present the individual financial statements of GTRC and GTARC as major funds. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of GTRC. Transactions and balances between GTRC and GTARC are eliminated in the entity-wide financial statements. Separately issued financial statements for Georgia Tech Applied Research Corporation can be obtained by contacting to the Director of Accounting, Georgia Tech Applied Research Corporation, 505 Tenth Street, Atlanta, Georgia, 30332-0415.

The State of Georgia has determined that GTRC is significant to the State of Georgia for the year ended June 30, 2010, and as such, is a discretely presented component unit in the Comprehensive Annual Financial Report of the State of Georgia.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

GTRC follows guidance as to governmental proprietary funds and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989. In accordance with GAAP the financial statements of GTRC have been prepared on the accrual basis of accounting and are presented in conformity with GAAP.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2010

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

Revenues

Substantially all of GTRC's revenues are derived from grants and cost reimbursement contracts which provide for the recovery of direct and indirect costs. GTRC recognizes revenue associated with direct and indirect costs as the related costs are incurred for approved research activities. The recovery of indirect costs is generally recorded at fixed rates negotiated with the sponsoring agency. License and royalty revenues are recorded when earned.

GTRC and GTARC classify revenue generated from their normal operational cycle as operating income. Revenue streams such as research contracts, licenses and royalties, and lease income are examples of what are considered to be operating revenues. Revenues that are not generated during the normal operating cycle such as interest income and unrealized gains and losses on investments are classified as nonoperating revenues.

Unbilled Accounts Receivable and Deferred Research Contract Revenue

Unbilled accounts receivable represents costs incurred and charged to projects in excess of amounts invoiced on those projects. Deferred research contract revenue represents amounts invoiced on various projects in excess of costs incurred and charged to those projects.

Overhead Revenue

GTRC receives reimbursement from sponsoring agencies for indirect costs incurred. GTRC retains a portion of the indirect costs which is used for operating expenses, and the remainder, with Board of Trustee approval, is generally granted back to GIT in future periods. The overhead revenue is reported as revenue from research contracts in the accompanying financial statements.

Cash

At June 30, 2010, the bank balance was \$67,645,504 and the book balance was \$66,821,494. At times, cash balances may exceed federally insured amounts. GTRC mitigates this risk by depositing and investing cash with major financial institutions. GTRC has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2010 the bank balances were collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services.

Investments

GTRC's investments consist entirely of equity securities, which are acquired in exchange for certain licensing fees. Equity security investments are held exclusively in GTRC's name. Equity securities acquired in exchange for licensing fees are not subject to GTRC's investments policy.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2010

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major Clients and Concentration of Credit Risk

During the fiscal year ended June 30, 2010, GTRC derived approximately 84% of its revenue from contracts with the U.S. Government. At June 30, 2010, approximately 49% of billed research contracts accounts receivable was from the U.S. Government. Management does not believe these receivables represent significant credit risk at June 30, 2010.

Federal Income Taxes

GTRC is exempt from income taxes as provided by Section 501(c)(3) of the Internal Revenue Code.

Allowance for Doubtful Accounts.

The allowance for doubtful accounts is determined by evaluating the prior experience, nature of the contract and credit rating of the sponsor for each contract with an outstanding balance greater than 180 days. Generally, all account balances greater than 180 days are reserved.

Changes in the allowance for doubtful accounts for the year ended June 30, 2010, were as follows:

	<u>Major funds</u>		
	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>Total Business - type Activities</u>
Beginning balance	\$ 1,606,570	\$ 2,086,279	\$ 3,692,849
Recoveries	12	18,319	18,331
Write offs	(893,702)	(18,343)	(912,045)
Provision for bad debts	1,500,000	-	1,500,000
Ending balance	<u>\$ 2,212,880</u>	<u>\$ 2,086,255</u>	<u>\$ 4,299,135</u>

Capital Assets

Capital assets are capitalized at cost. Donated assets, if any, are recorded at their estimated fair value at the date of the gift. GTRC has established a threshold of \$5,000 for capitalizing equipment. All capitalized assets purchased under the terms of equipment and facilities grants are donated to GIT when fully depreciated. GTRC donated fully depreciated capital assets with an original cost of approximately \$576,381 to GIT during the year ended June 30, 2010.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives which range from three to ten years. The straight-line method of depreciation is followed for all capital assets.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2010

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants to Georgia Institute of Technology

Grants of funds are made from time to time to GIT, as authorized by the Board of Trustees. Pursuant to an agreement between GTRC and the Board of Regents of the University System of Georgia, dated April 1, 1953, GTRC shall hold in trust all unrestricted net assets for GIT who shall use such revenue from time to time and in such manner as the Board of Trustees of GTRC may see fit, for the promotion of research at GIT.

Net Assets

GTRC's net assets are classified as follows: *Invested in capital assets* represent GTRC's total investment in capital assets, net of related depreciation. *Unrestricted net assets* represent resources derived primarily from research contracts, licensing and royalties, and lease income. These resources are used for the ongoing operations of GTRC and may be used at the discretion of the governing board to meet current expenses for those purposes and to enhance programs at GIT.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through September 17, 2010, the date these financial statements were available to be issued.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2010

NOTE 3 – CAPITAL ASSETS

Following are changes in capital assets for the year ended June 30, 2010:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets not being depreciated:				
Historical treasures and works of art	\$ 240,735	-	-	\$ 240,735
Total capital assets not being depreciated	240,735	-	-	240,735
Capital assets being depreciated:				
Building improvements	127,331	-	-	127,331
Computer software	594,423	14,050	-	608,473
Furniture and equipment	2,785,659	106,760	576,381	2,316,038
Total capital assets being depreciated	3,507,413	120,810	576,381	3,051,842
Less accumulated depreciation for:				
Building improvements	(18,869)	12,734	-	(31,603)
Computer software	(498,431)	79,252	-	(577,683)
Furniture and equipment	(1,789,610)	280,676	576,381	(1,493,905)
Total accumulated depreciation	(2,306,909)	372,662	576,381	(2,103,190)
Total capital assets, net	<u>\$ 1,441,239</u>	<u>\$ 493,472</u>	<u>\$ -</u>	<u>\$ 1,189,387</u>

NOTE 4 – LEASE COMMITMENTS

Research Facilities

GTRC is committed to an operating lease with the University Financing Foundation, Inc. for the Centennial Research Building. The lease carries successive two year terms that are automatically renewed at prevailing market rates in effect at the time of the renewal. GTRC may cancel the lease upon notice given during July of any lease year to be effective as of June 30 of the then-current lease year.

GTRC entered into a new lease agreement for the Cobb County Research Facility with TUFF Cobb Research LLC in December 2009. Pursuant to the terms of the new lease agreement, TUFF Cobb Research LLC is to complete renovations to the facility. Upon substantial completion of the renovations a new lease term of twenty five years will be effective.

In connection with these lease agreements, both facilities have been subleased to GIT. The subleases carry successive one-year terms that may be renewed upon notice given at least sixty (60) days prior to the end of the sublease term. The present monthly rental receipts on

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2010

NOTE 4 – LEASE COMMITMENTS (Continued)

these subleases for the Cobb County Research Facility and the Centennial Research Building approximates the monthly rental payments.

Institute for BioEngineering and BioSciences Complex

The Institute for BioEngineering and BioSciences Complex (the “Complex”) was developed by Georgia Tech Facilities, Inc. (GTF), formerly Georgia Tech Foundation Facilities, Inc., and funded by the issuance of 30-year, fixed rate, Series B bonds through the Fulton County Development Authority. On December 1, 1997, GTRC agreed to guarantee these bonds by entering into an agreement to lease the Complex from GTF. On April 1, 2008 the Series 1997B Bonds were refunded by the issuance of \$19,900,000 Development Authority of Fulton County Series 2008B Revenue Bonds. In connection with the refunding GTRC guaranteed the 2008B Revenue Bonds and entered into an Amended and Restated Facility Lease Agreement with GTF. In accordance with the amended and restated lease agreement the lease will expire on September 1, 2028 or at such time as the Revenue Bonds are redeemed. GTRC is obligated to pay rent in an amount equal to the principal, premium (if any) and interest on the Series 2008B Bonds Revenue Bonds when due and upon any redemption or acceleration thereunder.

In connection with this lease agreement, GTRC subleased the complex to GIT. The sublease carries successive one-year terms that may be renewed upon notice given at least sixty (60) days prior to the end of the sublease term. The timing and amount of rental payments under the sublease are substantially the same as those under the lease agreement between GTRC and GTF.

GTRC’s leases are subleased to GIT. The subleases carry successive one-year terms that may be renewed upon notice given at least sixty (60) days prior to the end of the sublease term. The timing and amount of rental payments under the subleases are substantially the same as those under their corresponding lease agreements between GTRC and third-party lessors.

Future minimum lease payments at June 30, 2010 are as follows:

Year ending June 30:

2011	\$ 5,471,462	\$ 5,471,462	\$ -
2012	4,114,082	-	4,114,082
2013	4,344,631	-	4,344,631
2014	4,206,242	-	4,206,242
2015	3,874,505	-	3,874,505
2016-2020	17,657,544	-	17,657,544
2021-2025	17,658,037	-	17,658,037
2026-2030	14,747,265	-	14,747,265
2031-2035	10,382,400	-	10,382,400
2036-2037	2,768,640	-	2,768,640
	<u>\$ 85,224,808</u>	<u>\$ 5,471,462</u>	<u>\$ 79,753,346</u>

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2010

NOTE 4 – LEASE COMMITMENTS (Continued)

Net rent expense for the year ended June 30, 2010, was as follows:

Minimum rentals	\$ 5,144,433
Less - Sublease rentals - Georgia Institute of Technology	<u>(5,144,433)</u>
Net rent expense	<u><u>\$ -</u></u>

NOTE 5 – CONTINGENT LIABILITIES

As of June 30, 2010, GTRC guarantees approximately \$61,871 of home mortgages of new research faculty members.

Federal and state funded research projects are subject to special audits. Such audits could result in some allocated costs being disallowed or indirect cost rates adjusted. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.